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C O N F I D E N T I A L SECTION 01 OF 02 ZAGREB 000755

SIPDIS

E.O. 12958: DECL: 03/12/2008

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SUBJECT: UNBLOCKING SFRY ASSETS: CROATIA MAINTAINS HARD

LINE, INCLUDING ON RUSSIAN DEBT

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REF: A. BELGRADE 740

[B](#). LJUBLJANA 344

[C](#). SKOPJE 423

CLASSIFIED BY: NICHOLAS HILL, POLITICAL ECONOMIC COUNSELOR, FOR REASONS

1.5 (B) AND (D)

[1](#). (C) SUMMARY: FOR CROATIA, UNRAVELING THE LIABILITIES AND ASSETS OF THE SUCCESSOR STATES OF THE FORMER YUGOSLAVIA CONTINUES TO HINGE ON SECURING A RATIFIED AGREEMENT ON SUCCESSION ISSUES (ASI). ON APRIL 4, ZDRAVKO ROGIC, SENIOR CROATIAN REPRESENTATIVE ON THE SUCCESSOR STATES' FINANCE COMMITTEE, REPEATED WHAT HE AND OTHERS IN THE GOC HAVE SAID TO US ON SEVERAL OCCASIONS ALREADY: EVEN IF THE GOVERNMENT WANTED TO, IT COULD NOT PROVIDE A HOLD HARMLESS TO ENABLE DISPERSAL OF NBY ASSETS TO SUCCESSOR STATES BY THE APRIL 15 U.S.-IMPOSED DEADLINE BEFORE OFAC PROCEEDS WITH A GENERAL UNBLOCKING. CROATIA WOULD LIKE TO SEE THE BLOCKED NBY ASSETS DISPERSED AS SOON AS POSSIBLE AFTER AN ASI IS RATIFIED, ROGIC CONTINUED, BUT A HOLD HARMLESS WOULD BE A LEGAL "IMPOSSIBILITY." MOREOVER, HE SAID, DEALS WORKED OUT WITH THIRD COUNTRIES, INCLUDING ONE SIGNED WITH RUSSIA LAST WEEK, ARE PREDICATED ON HAVING A RATIFIED SUCCESSION AGREEMENT. NO DISPURSEMENTS COULD BE MADE BY MOSCOW UNTIL CROATIA RATIFIES THE ASI. END SUMMARY

HOLD HARMLESS IMPOSSIBLE

[2](#). (C) ZDRAVKO ROGIC, DEPUTY GOVERNOR OF THE CROATIAN
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CENTRAL BANK AND THE GOC'S REPRESENTATIVE ON THE SUCCESSOR STATES' FINANCIAL COMMITTEE, WAS IN FAMILIAR FORM DURING A MEETING APRIL 4. HE HAD JUST RETURNED FROM SKOPJE, WHERE THE FINANCIAL COMMITTEE HAD JUST CONCLUDED A TOUGH SESSION. ROGIC SAID CROATIA'S STAND WITH RESPECT TO THE U.S. REQUEST FOR A HOLD HARMLESS TO ENABLE RELEASE OF FROZEN NBY ASSETS REMAINED ABSOLUTELY UNCHANGED. HE REPEATED ALL THE ARGUMENTS HE HAS MADE BEFORE, AND CLAIMED OTHER SUCCESSOR STATES REMAINED UPSET ABOUT THE U.S. DECISION TO GO FORWARD WITH A GENERAL UNBLOCKING ON APRIL 15 ABSENT A HOLD HARMLESS. THE U.S., PERHAPS THE WORLD'S "MOST LEGALISTIC STATE," HE SAID, WANTS TO PUSH FORWARD HERE IN A NON-LEGAL FASHION TO UNBLOCK EVEN THOUGH CROATIA HAS NOT RATIFIED THE ASI. THE U.S. WANTS THE GOC TO PROVIDE A HOLD HARMLESS EVEN THOUGH, BY PROVIDING IT, THE CROATIAN GOVERNMENT WOULD BE USURPING THE AUTHORITY OF THE CROATIAN PARLIAMENT.

[3](#). (C) ROGIC REPEATED POINTS HE AND COLLEAGUES HAVE MADE ON MANY OCCASIONS TO US, IN PARTICULAR THAT AUTHORITIES IN BELGRADE CONTINUE TO REFUSE THE CROATIANS AND OTHER SUCCESSOR STATES THE OPPORTUNITY TO LOOK AT THE BOOKS OF THE NBY TO FIND OUT WHAT HAPPENED TO \$589 MILLION THAT HAD GONE MISSING FROM JOINT VENTURE BANKS. "WE NEED YOUR HELP IN TRACKING DOWN THIS MONEY," HE REPEATED. WHY DO AUTHORITIES IN BELGRADE REFUSE TO COOPERATE WITH US? "IT'S IN THEIR INTEREST TO GET TO THE BOTTOM OF THIS" BECAUSE THE MONEY MOST LIKELY WAS STOLEN BY MILOSEVIC'S PEOPLE. ROGIC SAID AGAIN THAT CROATIA DOES NOT WANT COMPENSATION FOR THE MISSING MONEY -- IN THE FORM OF AN ALTERED KEY OR ANY OTHER WAY -- BUT MERELY WANTED A FULL ACCOUNTING THAT WOULD ENABLE THE GOVERNMENT TO SUBMIT THE ASI TO THE PARLIAMENT.

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RUSSIAN DEBT: NOT SO FAST

[4](#). (C) WE ASKED ROGIC ABOUT THE DEAL WORKED OUT IN MOSCOW OVER THE RUSSIAN DEBT (REF A), AND IN PARTICULAR WHETHER IN USING THE ASI KEY THE CROATIANS HAD ADOPTED A DOUBLE STANDARD. THE KEY, UNDER WHICH CROATIA GETS 23 PERCENT OF ANY PAYOFF TO SFRY SUCCESSOR STATES, WAS GOOD ENOUGH TO BE USED FOR DISBURSING RUSSIAN DEBTS BUT NOT FOR DISBURSING BLOCKED NBY MONEY. ROGIC POINTED OUT RATHER EMPHATICALLY THAT THE DEAL BROKERED IN MOSCOW IS PREDICATED ON THE VIENNA ASI COMING INTO FULL FORCE. BEFORE ANY MONEY COULD BE DISBURSED, HE STRESSED, ALL SUCCESSOR STATES WOULD HAVE TO

RATIFY THE VIENNA AGREEMENT. ASKED IF HE EXPECTED MOSCOW, A HISTORICAL FRIEND OF BELGRADE'S, TO HOLD UP DISBURSING MONEY TO SERBIA UNTIL CROATIA RATIFIED THE ASI, ROGIC SAID "ABSOLUTELY." AND IF RUSSIA DISBURSES THE MONEY BEFORE THE ASI COMES INTO EFFECT, ROGIC SAID HE EXPECTED THE U.S., AS A STATE RESPECTING THE RULE OF LAW, TO SUPPORT THE CROATIAN POSITION -- ALTHOUGH HE DID NOT SAY HOW.

COMMENT

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ACTION EUR-00

INFO	LOG-00	AID-00	CIAE-00	CTME-00	DODE-00	SRPP-00	EB-00
	EXIM-01	E-00	VC-00	FRB-00	TEDE-00	INR-00	IO-00
	ITC-01	L-00	VCE-00	AC-01	NSAE-00	NSCE-00	OIC-02
	OMB-01	OPIC-01	PA-00	PM-00	PRS-00	ACE-00	P-00
	SP-00	SSO-00	SS-00	STR-00	T-00	USIE-00	PMB-00
	DRL-01	G-00	SAS-00	/008W			

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O 041555Z APR 03
FM AMEMBASSY ZAGREB
TO SECSTATE WASHDC IMMEDIATE 9886
INFO AMEMBASSY BELGRADE PRIORITY
AMEMBASSY BRUSSELS PRIORITY
AMEMBASSY LJUBLJANA PRIORITY
AMEMBASSY LONDON PRIORITY
AMEMBASSY NICOSIA PRIORITY
AMEMBASSY ROME PRIORITY
AMEMBASSY SARAJEVO PRIORITY
AMEMBASSY SKOPJE PRIORITY
AMEMBASSY VIENNA PRIORITY
DEPT OF TREASURY WASHDC PRIORITY

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15. (C) ROGIC CAME ACROSS AS CLEARLY FRUSTRATED. HE CONTINUES TO SAY (OVER AND OVER AGAIN) THAT HE CANNOT UNDERSTAND WHY THE U.S. IS PUSHING SO HARD TO DISBURSE THE MONEY FROZEN UNDER THE SERBIA SANCTIONS PROGRAM -- ALTHOUGH HE RETURNED TO AN ACCUSATION MADE MONTHS AGO THAT THIS INITIATIVE IS ALL ABOUT A PROMISE THE SECRETARY MADE TO BELGRADE AUTHORITIES LAST YEAR TO RETURN FROZEN ASSETS TO THEIR RIGHTFUL OWNERS. EVEN IF ROGIC'S RESPONSE ABOUT THE HOLD HARMLESS REMAINS UNCHANGED, HE SOUNDED MORE CONCILIATORY CONCERNING COMPENSATION. HE KNOWS THAT THE \$589 MILLION THAT WENT MISSING AFTER THE ASI WAS SIGNED WAS PROBABLY STOLEN BY MILOSEVIC AND HIS CRONIES YEARS AGO. AS SUCH, CROATIA IS NOT ASKING FOR COMPENSATION IN THE FORM OF A HIGHER PERCENTAGE IN THE KEY OR ANYTHING ELSE. BUT THE GOVERNMENT NEEDS TO SEND AN ASI TO THE PARLIAMENT THAT REFLECTS REALITY -- OR SO HE ASSERTED TO US.

16. (C) WHEN ROGIC INSISTS THAT NONE OF THE RUSSIAN DEBT COULD BE DISBURSED UNTIL THE ASI ENTERED INTO EFFECT, WE PRESUME HE IS REFERRING TO LANGUAGE IN ARTICLE 8 OF THE MEMORANDUM BETWEEN THE RUSSIAN FEDERATION AND THE SFRY SUCCESSOR STATES. THAT SAYS THAT THE DEAL SHALL COME INTO FORCE AFTER "ALL THE REQUIRED INTRA-STATE AND INTER-STATE PROCEDURES" HAVE BEEN UNDERTAKEN. IT IS UNCLEAR IF ROGIC REALLY BELIEVES THAT RUSSIA -- WHICH HE COMPLAINED SHOWED BIAS IN MOSCOW TOWARD THE BELGRADE REPRESENTATIVE IN THE NEGOTIATIONS -- WILL DUTIFULLY WAIT FOR THE CROATIAN PARLIAMENT TO RATIFY THE ASI BEFORE DISBURSING ANY OF ITS
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DEBTS. ON THE OTHER HAND, ROGIC'S COMMENTS INDICATED THAT AN ENORMOUS AMOUNT OF BILATERAL NEGOTIATIONS BETWEEN MOSCOW AND THE SUCCESSOR STATES REMAINS OVER SETTLING ACCOUNTS, AND MOSCOW MAY NOT BE IN SUCH A RUSH TO HONOR DEBTS IF IT HAS A GOOD EXCUSE TO SIT ON ITS HANDS.

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